

**Statement of Mr. Johnny Johnson, CEO of  
Community Pride Food Stores, Inc.  
Before the U.S. House Committee on Commerce  
Subcommittee on Energy and Power**

**April 18, 1997  
Richmond, VA**

Mr. Chairman and Members of the Committee, I am Johnny Johnson, owner and CEO of Community Pride Food Stores here in Richmond, VA. Community Pride is an independent group of eight grocery stores serving primarily low-income urban communities within the city of Richmond.

In addition to representing Community Pride today, I am also here on behalf of the Food Marketing Institute (FMI). FMI is a nonprofit association representing over 1500 food retailers and wholesalers and their customers. FMI domestic member companies operate approximately 21,000 retail food stores in every state in the nation, with a combined annual sales volume of \$220 billion, more than half of all grocery sales in the United States. FMI's membership ranges from independent operators with one to ten stores, to the largest regional and national chains.

As an industry, food retailers employ over 3.2 million people, operate 131,000 stores and account for more than \$412 billion in annual sales. As a direct result of the large volume of sales and the demand for efficiency and low prices by our customers, the retail food industry is highly competitive. In fact, in 1995 the industry averaged a net profit after taxes of just 1.2

percent. That's about a penny in profit for every dollar that goes in the cash register. Community Pride, however, operates of an even tighter margin of .7 percent.

In addition to being a very competitive industry, we are also very energy intensive. Electricity costs, industry-wide, represent about 1 percent of sales<sup>1</sup> and, after labor and rent, represent our largest cost of operation. Community Pride differs from the industry average on these statistics in that our utility costs exceed our rent. In fact, rent represents 1.76 percent of sales while electricity costs amount to 1.8 percent of sales. That means that if you compare store profits to the cost of electricity, Virginia Power makes more than twice as much off each store as it's owners do. That also means that if you total all eight stores together, Virginia Power makes an average of \$52,000 per month from Community Pride.

As a result of the intense competition in our industry, we must seek out every reasonable efficiency. This includes energy management, employee training and education, new technology utilization and competitive purchasing from suppliers. As a food retailer, Community Pride has the option of choosing from several wholesale suppliers of the products we sell. In having a choice, we are able to compare prices, services and quality and select the supplier that will best meet our needs. This choice also gives us leverage in the market and allows us to negotiate contracts tailored to our requirements. We are also able to select a single supplier for all of our

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<sup>1</sup> FMI's *Operations Review, First Quarter 1996*

stores or have different suppliers for different stores. This means greater variety, levels of service, and billing procedures.

However, while we have a choice of suppliers for the other commodities and services that we buy, we are locked into who we buy our electricity from. Whether we are satisfied with the price, reliability or quality of customer service, we have no choice but to purchase our electricity from Virginia Power who charges us, on average, 7 cents per kWh. This price is set not by the market but rather by the utility and the state public utility commission, using a system designed to generate capital rather than to serve the needs of Virginia's electricity consumers. As a result, prices reflect only Virginia Power's cost of operation and profit for shareholders, not market conditions.

These artificially high electricity prices hurt retailers, but they also hurt my customers. The communities that my stores serve are all within the Richmond City limits. Thirty-nine percent of my business is food stamps. Many of my customers struggle each day to make ends meet and when they come into my store they are looking for bargains. But represented in the cost of every item in each of my stores is a hidden tax in the form of state and federal laws that allow for the current monopoly utility system. Consequently, the prices of these goods are artificially inflated. That means that their food stamps don't go as far as they should. It means that my customers have to stretch their paychecks even further.

If, due to competition in the electric utility industry, the makers of the products we buy were to pay less for their electricity, then their cost of production will be less. These savings, as is usually the case, would be passed down the distribution chain to the retailer and, in turn, to the customer. That means that household budgets go further and food stamps and other programs, intended to help people in need, do more for the same amount of money.

This brings me to my next point. Customer choice in electricity is not simply a state or local issue. As I mentioned a moment ago, we have a choice of several suppliers to provide the items we stock on our shelves. Many of these suppliers buy products made in other states or countries yet they eventually end up in my stores. Just like my other suppliers, Virginia Power purchases electricity generated in other states and then sells it to me or other customers. Virginia Power also sells electricity that it generates to out-of-state customers, delivered over lines regulated by the federal government. This is why we need federal legislation.

Since electricity is a commodity in interstate commerce, it is the federal government's role to ensure fair access to that market. States should continue in their role as the overseers of local distribution and plant construction, but just as with long distance service, only the federal government has the authority to ensure fair access. For these reasons, the Food Marketing Institute asks that federal legislation include the following principles:

1. Customer choice for all consumers by a date no later than December 15, 2000.
2. The ability to purchase electricity like any other product or service, including through aggregate groups.
3. Functional separation of the various segments of service, generation, transmission, distribution and billing services.
4. Customers should not be responsible for revenues lost in the move to a competitive market.
5. Neither electricity consumers nor taxpayers should be solely responsible for the costs of contracts or facilities entered into or constructed under mandates of the federal government. While we recognize that some of these costs are legitimate, we also recognize that the length of contract or size and type of facility may not have been mandated and for that reason we believe that every effort should be made to mitigate these costs.

It is very important that legislators allow customers from all customer classes to join together in aggregate groups to purchase electricity. This will enable small residential customers and small businesses like Community Pride to appear to the market no differently than a large industrial facility. Furthermore, if Community Pride is allowed to join with other consumers, we will explore the possibility of joining not only with

other supermarkets in the region, but also with our employees and customers to buy electricity in bulk. This equal treatment means protection for small consumers in a competitive market place. However, by limiting access by state or region, small consumers in different states would be restricted from joining together, thus harming their purchasing advantage. States must not and should not be barriers to consumers access to interstate commerce.

Finally, it is my understanding that a witness at the previous hearing in Atlanta listed a number of community service programs that the utility he represents is involved. He then went on to state that he believed that competition is not something to be rushed into. I personally fail to see the connection between community service and competition. Community Pride is involved with many projects that help our communities including the hiring the homeless, giving a 10 percent discount to families of students who get A's and B's, awarding prizes to teachers with the highest student performance, as well as helping start up minority owned businesses. Was this witness in Atlanta trying to imply that the utility he represents would not be so generous if it had to compete for customers?

We at Community Pride Food Stores take our name seriously. We believe that the best businesses give something back to the community. But we also believe that the greatest service a business can provide a community is to offer quality goods and services at fair prices. The grocery business achieves this in large part through competition. It is for that reason that Community Pride Food Stores and the Food Marketing Institute ask that

Congress move quickly to pass comprehensive legislation to bring customer choice to our nation's electricity industry.

Thank you Mr. Chairman and members of the committee for the opportunity to address you today.